AGRICULTURAL OUTLOOK DIGEST

AOD-180

ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE • WASHINGTON, D.C. • SEPTEMBER 1972

Only once in the past decade have U.S. cotton farmers increased output sharply, and that was in 1968, as they recovered from 1967's puny 7½-million bale performance. This year they are cranking up again, in response to attractive prices, good prospective demand, and a small carryover.

Carryover stocks of all cotton on August 1 were down to about 3.3 million running bales, the smallest in 2 decades. The drop was partly the aftermath of last year's small supply of 14½ million running bales. Farm prices of cotton in the year ended August 1 averaged 28.6 cents a pound, about 6 cents over the prior season, because of relatively firm demand and a tight supply.

Now we are headed for the first cotton crop in the teens since 1965. The 1972 crop is forecast at 13.3 million bales (480-pound net weight), a fourth more than last year. Farmers planted significantly more acreage last spring in response to higher cotton prices. The acreage increase reflects suspension of marketing quotas and penalties under the Agriculture Act of 1970. So the pickers are beginning to roll over a projected 13.2 million acres, 15 percent more than a year before and the most since 1965.

Acreage only partly explains the larger production estimate. Yields are likely to bounce back to the range of the early and mid-1960's. This season's good growing conditions have raised the yield forecast to 487 pounds of lint per acre, 49 pounds more than for the 1971 crop.

Cotton Use May Rise

There are signs that domestic mill use of cotton will maintain strength during the coming season, and exports will do better.

U.S. mills used 8.0 million bales last season, virtually the same as the season before. Demand for the natural look of denims and corduroys continues strong. Output of these fabrics during the first half of 1972 was the largest ever and the backlog of unfilled orders is large enough to continue a high rate of output in the months ahead.

Other cotton goods also are in current demand, as unfilled mill orders accumulate. The ratio of stocks to unfilled orders is the lowest since 1966. Another predictor of mill activity in the months ahead, mill price margins, also is favorable.

Limited cotton supplies and higher prices in the past season dampened our export performance to 3.2 million bales. In the 1972/73 season, with more available for export, we may ship around 3½ million bales. Foreign demand looks strong enough to absorb it, despite larger 1972 crops elsewhere and continued gains in the use of man-made fiber overseas.

Stocks to Increase

Increased foreign buying will likely raise total U.S. cotton disappearance over the 11¼ million running bales of 1971/72. Still, the supply increase is likely to be on the order of nearly 2 million bales. Thus, next summer's stocks are likely to total about 4¾ million running bales, up from the low level of this August.

Extra-long-staple Cotton

Another large crop of extra long staple cotton is in store for 1972. August 1 indications of 92,400 bales (480-pound net weight) put the crop only a little below last year's big harvest and well above the average of 1967-71.

The carryover, totaling about 74,000 bales this August, increased over the prior season's unusually low level of 62,000 bales because 1971/72 output and imports rose while both domestic mill use and exports declined.

With offsetting crop and carryover, the 1972/73 supply may change little. Disappearance may increase slightly. This would leave the 1973 carryover near the current level.

SEPTEMBER HIGHLIGHTS

FALL FEED TUNEUP

The feed economy promises to be a little more in tune this season. The total supply, based on preliminary estimates of fall feed grain crops and carryovers, will amount to 233 million tons, a shade below last fall's 239 million, as a smaller crop offsets a larger carryover.

On the demand side, exports in 1972/73 will improve over the very favorable 26 million tons estimated for the 1971/72 season, while record livestock numbers and favorable livestock-feed price ratios could spur a modest further gain in domestic use.

The outcome is likely to be somewhat higher fall feed grain prices than last fall's sub-loan levels, since total use for the marketing year will likely exceed the crop and reduce the carryover one year from now.

Larger Carryover

An estimated 50 million tons of feed grains will remain from the 1971/72 supply, well up from the prior carryover of 33 million tons. Despite record use in the past year, estimated ending stocks of corn and sorghums are nearly double a year ago, while those of oats and barley are moderately larger.

Farmers have reduced feed grain acreage for harvest this fall by 11 percent. Based on August conditions, reduced acreage is projected to yield 183 million tons, also 11 percent less than last year, but the second largest output of record.

Heavy Use Continues

Domestic use of feed grains for feed, seed, and processing will show a 6-percent increase in the current marketing year. Apparently, higher livestock prices and low feed prices stimulated feeding rates per animal unit, since there was no increase in numbers of grain-consuming animals.

Domestic use is likely to continue gaining in 1972/73, sparked by a small increase in grain-consuming animals. While hog numbers are down and poultry numbers are little changed, the inventory of cattle, particularly beef animals, continues a steady rise.

With no abatement likely in the unprecedented demand for meat and with a smaller output of pork relative to last fall, live animal prices will be relatively high going into the 1972/73 feeding season. And, although a better balance of feed grain supply and demand is emerging, feed grain prices will rise only moderately. So livestock-feed price ratios will be at high levels in the months ahead, giving livestock producers incentive to continue feeding at generous rates.

Recent developments in the wheat situation could reduce the amount of wheat fed and thus aid feed grain use, particularly for grain sorghums. The USSR has apparently made hugh initial wheat purchases, inaugurating a 3-year grain deal. Following the early-August deal, prices increased sharply. If wheat prices continue at recent favorable levels, wheat feeding is likely to drop.

Exports of feed grains, which jumped a fourth for 1971/72, will continue on the upbeat. A considerable rise is expected for exports in the new season, largely because of ample U.S. supplies at competitive prices plus unabated foreign demand for U.S. feed concentrates, particularly in the USSR.

HIGHER CORN PRICES

Corn prices this fall are likely to be higher and more stable than a year before. The current crop forecast places output at slightly under 5 billion bushels, although the carryover will approach 1.1 billion bushels. Prospects are excellent for both domestic use and exports, and heavy loan activity is likely to continue.

Sorghums Higher-Priced, Too

Sorghum supplies for 1972/73 apparently will continue close to last season's level of almost 1 billion bushels. A large carryover offsets a one-tenth smaller prospective crop. Domestic use also is likely to be up some from this season's heavy pace, although the export level will depend on the relationship between corn and sorghum prices.

With a smaller crop, continued strong feed demand, including less wheat feeding, and a 6-cent boost in the loan rate to $1.79 per hundredweight, sorghum prices probably will average somewhat higher than the $1.86 received for the 1971 crop.

Oats and Barley

The carryover of oats this July was the most ever—over a half-billion bushels. Yet with a crop this fall forecast at around 740 million bushels, the least since 1934, the supply will drop from the 1971/72 level.

Oat prices received by farmers strengthened over the 1971/72 season to average 60 cents a bushel, 2 cents below 1970/71. Smaller supplies and strong demand are likely to maintain fairly strong prices in the coming season.

Barley prices are likely to continue strong. The total supply will be reduced an estimated 6 percent because of a smaller crop, and total use may not equal last season's level. Exports fell sharply last year but could drop even more if the USSR favors European or Canadian barley over American barley.

High-Protein Feeds

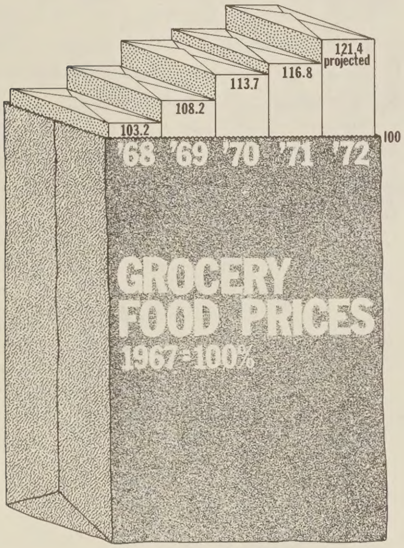
A tight supply-demand balance and higher prices of soybeans limited high-protein supplies during the 1971/72 feeding year to 20 million tons, the same as the year before. The 1972/73 feeding year may see a modest gain. The soybean crop is forecast 9 percent larger and the cotton crop is forecast up about a fourth. Fish meal supplies this year increased a fourth over 1970/71, and may increase a little further in 1972/73.

While supplies will increase, so will foreign and domestic demand, as heavy feeding rates continue and more animals are fed.

Prices have been high, and will continue to reflect generally tight supplies and strong demand for protein feed. Soybean meal is averaging around $88 a ton for 1971/72, a record level. Prices firmed at around $100 a ton this summer, and will be well over the $75 level of last September-October.

FALL FOOD OUTLOOK

This is a year of sporadic food price activity. Retail prices for grocery foods were relatively level for several months after a January spurt, but resumed their rise in June and July. This activity largely accounts for a 4½-percent rise projected for grocery foods for all of 1972.

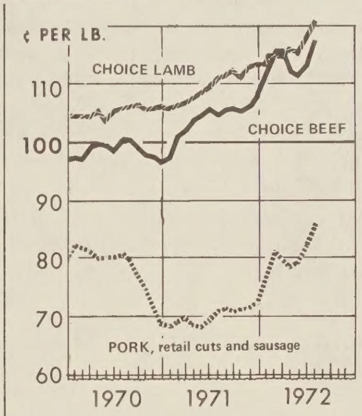


Supplies of a number of foods are likely to be tight in the final fall quarter. Although cattle marketings are larger than last year, prices of beef will remain higher than a year ago. Pork output likely will continue smaller than in 1971, although the pace of production will be picking up seasonally. Vegetable producers reduced acreage for fresh markets for the third year running, despite continued price increases Summer vegetable output is estimated 4 percent behind 1971, a signal for higher retail prices in this supply-sensitive sector. Potato output, which was large enough to depress prices in 1971/72, will be curtailed this fall, raising prices over last year. The harvest of fresh noncitrus fruits also will be smaller than last year.

For the rest of 1972, price gains will slow. Beef prices are likely to back off a little from high summer levels in early fall. Meanwhile, prices of crop-related foods may decline, but probably less than usual for this time of year.

Pressure on fall food prices will also come from unabated demand. Consumers are garnering more income from a variety of sources, including larger social security benefits, larger government spending and income taxes, higher wages, and rising employment. Consumer income after taxes may go up 7½ percent, and spending for food in 1972 may well rise 5½ percent to almost $125 billion.

RETAIL MEAT PRICES*



*ECONOMIC RESEARCH SERVICE COMPOSITE RETAIL PRICES.

RECORD CATTLE MARKETINGS, HIGHER PRICES

A record output of fed cattle the rest of this year will be tempered by a smaller volume of slaughter animals that have not been through feedlots. Even so, both total cattle slaughter and fed cattle prices are forecast to exceed second-half 1971 levels.

Fed cattle marketings in the first half of 1972 were up about 5 percent, but cow slaughter was down a little and the number of nonfed steers and heifers slaughtered was down about 35 percent. Thus, total cattle slaughter in the first half was only about 1 percent larger than in January-June 1971.

Fed Cattle Buildup

At mid-1972, cattle feeders in the 23 major feeding States had 15 percent more cattle and calves on feed than a year before. Corn Belt feeders upped numbers 12 percent while Western feeders had 18 percent more on feed.

Cattle feeders planned to ship 9 percent more cattle to market this summer (July-September) than last, which would exceed spring marketings by 7 percent and last winter's marketings by about 12 percent. However, total cattle slaughter will be tempered by reduced marketings of nonfed cattle.

In the coming months, cow slaughter likely will run near year-earlier levels, but considerably fewer nonfed steers and heifers are expected to be slaughtered than a year earlier. With lower priced feed this year and higher cattle prices, many animals which might have been slaughtered in the "nonfed" category are being channeled onto feed.

Price Peak

Prices of Choice steers at Omaha peaked for the summer at $39 per hundredweight in early July, but eased off to $34 by late August as the pace of marketings increased. However, with fewer hogs than a year ago coming to market and strong consumer demand for meat, the recent downturn will slacken, and summer fed cattle prices will average a little higher than the $32.80 of a year before.

Feeder Cattle Prices Strong

Feeder cattle prices have been on the upswing since last fall, reflecting exceptionally strong feedlot demand. Cattle feeders boosted placements a tenth in the first half 1972, while paying progressively higher prices.

Choice yearling steers at Kansas City in late August were about $42.50 per hundredweight, about $7 above a year ago. Feeder calf prices at many river and Western markets were running between $51 and $55, substantially above year-earlier and fall levels.

Feeder cattle prices likely will show some further seasonal decline this fall, because the volume of fed cattle marketings will be large and prices will decline from the summer average. However, fall prices are expected to average near or above a year ago, when they were the highest in several years.

ECONOMIC GAINS

Economic gains scored on many fronts this year will continue into 1973.

The economy has warmed up considerably this summer. Output of goods and services is climbing at a far more rapid rate than 1971's average pace. Expanding industrial production, employment gains, and large advances in personal incomes and corporate profits reflect the acceleration in economic activity. And the Nation's unemployment rate, hovering around 6 percent for the past 12 months, slid to 5.5 percent in June and July. But international trade deficits and monetary and fiscal problems continue to blur a brightening scene.

Buoyed by larger corporate profits and tax credit incentives, new plant and equipment expenditures by industry are running well above a year ago. Inventory investment has picked up and home buying continues at a very high level. Federal expenditures and State and local outlays have also been expansionary. Moreover, consumers, saving a lesser portion of their additional income, have stepped up their spending as they normally do during a recovery period.

Outlook for 1973

Availability of manpower, credit, and most materials, coupled with strong public and private demand, point to further economic expansion next year. Most industries will continue to take advantage of relatively moderate interest rates and underemployed technical personnel to improve and expand their facilities and to increase production. This development should continue to stimulate sales of producer goods well into 1973.

The expected business upswing will be aided by large Federal purchases of goods and services and transfer payments. Social security benefits, increased across the board by 20 percent, will add many billions to the income stream beginning this October, although social security taxes will be raised in January. This combination will make a $4 billion net addition to the Federal deficit in fiscal 1973. Consumer incomes also will be heavily padded by larger than usual income tax refunds in early 1973.

FOREIGN FOCUS

Digested from Foreign Agricultural Trade of the United States, August 1972

Increased Prices, U.S. Demand, Attract Farm Imports

Farm imports, like farm exports, reached a new record in the recent fiscal year. Imports hit just over $6 billion for the year ended June 31, while exports topped $8 billion. Farm imports were 4 percent higher than in 1970/71.

The gain occurred during January-June 1972, the last half of the fiscal year, when longshoremen's strikes were settled and U.S. import duties were lowered.

While the value of noncompetitive imports—such as coffee, cocoa, and rubber—was equal to the year before, there was a 7-percent advance for competitive imports to nearly $4 billion. These farm products, which supplement commodities we produce domestically, entered in larger volume, but also at higher average prices. Cattle, meat, sugar, some fruits and vegetables, tobacco, and wine accounted for the advance. Price gains helped boost incoming values of cattle, beef, cheese, casein, and sugar.

Competitive imports increased for a variety of reasons: strong domestic demand, short U.S. supplies, and lower foreign prices. Imported feeder cattle and calf numbers rose 9 percent above the 1970/71 level, but price rises jumped value nearly one-fourth. Expanded U.S. demand and high prices attracted more Mexican cattle.

Strong U.S. demand for meat was indicated by increases in import volume and prices. Value gained 8 percent to nearly $1.1 billion. The largest item within the meat category, boneless beef, advanced 8 percent to 1.2 billion pounds. Veal, mutton, and pork imports also advanced. Port strikes were a factor in reduced meat imports last year; entries subsequently accelerated in the second half. Australia, New Zealand, and Central American countries accounted for the gain.

The rise in dairy-product import value for 1971/72 resulted from price increases. Cheese entries fell 4 percent to 149 million pounds, but value gained 5 percent to $89 million. Casein import volume fell 14 percent, but higher prices pushed value up 47 percent to $46 million.

U.S. imports of frozen orange juice concentrate, chiefly from Brazil, surged to 38 million gallons (single-strength basis) and $14 million in fiscal year 1972. Apple juice entries from diverse sources gained a third in volume to 35 million gallons and 50 percent in value to $10 million. Most of this is used for making wine.

Unmanufactured tobacco imports in 1971/72 totaled 270 million pounds, 16 percent above a year earlier. Oriental cigarette leaf-tobacco purchases rose moderately, but lower-priced tobacco for cigar filler from the Phillippines, the Dominican Republic, Colombia, and Brazil gained sharply. Higher domestic tobacco prices encouraged continued gains in imports.

Higher prices pushed sugar import value up by 12 percent to $832 million. Expanded U.S. demand for table wines attracted about 33 million gallons of wine, more than the 25 million gallons in 1970/71, especially from Portugal and Spain.